

01 November 2023

India | Equity Research | Q2FY24 result review

V-Guard

White Goods

Green shoots visible; model recovery in FY25

Takeaways from V-Guard's Q2FY24: (1) gross margin is reverting to pre-covid levels (+449bps YoY in Q2FY24), (2) B2B segments have maintained healthy growth whereas B2C segments (Consumer durables) continued to report dismal performance, and (3) there is improvement in working capital. We expect a recovery in FY25 due to likely revival in consumer demand, stability in input prices and exhaustion of high cost inventory. We expect profitability in consumer durables to revive in H1FY25. The distribution, sourcing and media buying synergy benefits post Sunflame acquisition are likely to be realised in H2FY24 and FY25. We remain constructive on V-Guard and maintain **ADD** rating with DCF based unchanged target price of INR 335 (implied P/E of 46x FY25E).

Q2FY24 results

V-Guard reported revenue, EBITDA and PAT growth of 14.9%, 26.5% and 35.0%, respectively YoY. The revenue growth (ex-Sunflame acquisition) was 8.7%, YoY. The gross and EBITDA margins expanded 449bps and 75bps, respectively YoY on lower input commodity prices and exhaustion of high channel inventory in our view.

Segment-wise performance

Segment-wise revenue growth rates: Electronics 12.1%, Electricals 9.6% and Consumer durables 5.1% YoY. Muted consumer offtake impacted consumer durables revenue growth. EBIT margin of Electricals expanded 287bps but that of Electronics remained flat YoY. South India and North India revenues were up 6.7% and 11.3%, respectively YoY.

Likely recovery in FY25

While the green shoots of recovery in durables market is already visible, we model recovery in FY25 due to (1) stability in commodity prices, (2) exhaustion of high-cost inventory, (3) likely revival in consumer demand and (4) positive response to new product launches. The gross margins are reverting to pre-covid levels. Hence, we model tailwinds to margins in FY25-26.

Valuation and risks

We model V Guard to report revenue and PAT CAGR of 16.2% and 29.3%, respectively over FY23-25 with improving RoCE. We rate V Guard as **ADD** with DCF based target price of INR 335 (implied P/E of 46x FY25E). Key risks are steep competition and material inflation in commodity prices.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	41,260	48,267	55,738	63,508
EBITDA	3,199	4,537	5,434	6,351
EBITDA Margin (%)	7.8	9.4	9.8	10.0
Net Profit	1,891	2,561	3,163	3,830
EPS (INR)	4.4	5.9	7.3	8.9
EPS % Chg YoY	(17.1)	35.4	23.5	21.1
P/E (x)	69.3	51.1	41.4	34.2
EV/EBITDA (x)	41.7	29.2	24.2	20.4
RoCE (%)	10.4	12.3	13.6	14.5
RoE (%)	12.5	15.0	16.5	17.4

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Market Data

Market Cap (INR)	131bn
Market Cap (USD)	1,578mn
Bloomberg Code	VGRD IN
Reuters Code	VGUA.BO
52-week Range (INR)	335 /229
Free Float (%)	40.0
ADTV-3M (mn) (USD)	1.8

Price Performance (%)	3m	6m	12m
Absolute	6.4	19.4	20.3
Relative to Sensex	9.1	13.4	12.0

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(4.7)	(6.6)
EBITDA	(8.1)	(8.9)
EPS	(10.5)	(11.1)

Previous Reports

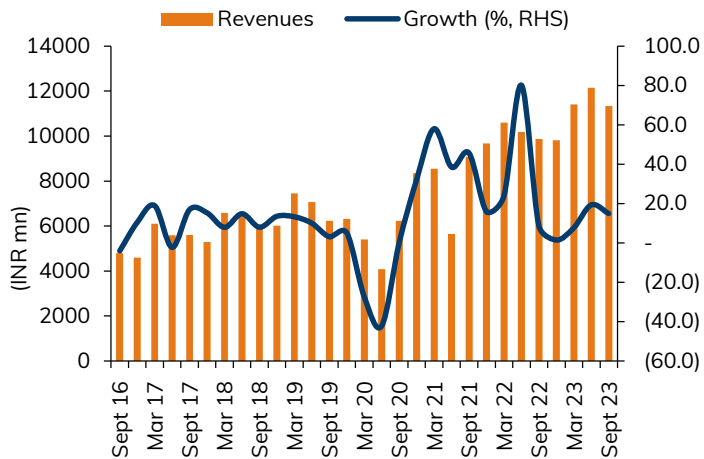
10-08-2023: [Q1FY24 results review](#)

01-06-2023: [Q4FY23 results review](#)

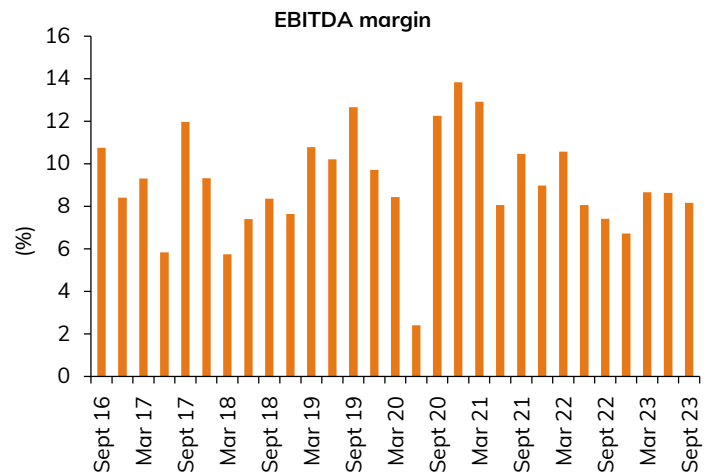
Exhibit 1: Q2FY24 financial performance

Y/e March (INR mn)	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Revenue	11,338	9,866	14.9	12,148	(6.7)
Expenditure					
Raw materials	7,509	6,977	7.6	8,199	(8.4)
% of revenue	66.2	70.7		67.5	
Employee cost	1,061	663	60.1	1,040	2.1
% of revenue	9.4	6.7		8.6	
Other expenditure	1,842	1,494	23.3	1,862	(1.0)
% of revenue	16.2	15.1		15.3	
Total expenditure	10,413	9,134	14.0	11,100	(6.2)
EBITDA	925	731	26.5	1,048	(11.7)
EBITDA margin	8.2	7.4		8.6	
Other income	142	29	393.4	118	20.1
PBDIT	1,067	760	40.3	1,165	(8.5)
Depreciation	198	150	32.0	198	0.1
PBIT	869	610	42.4	968	(10.2)
Interest	93	19	404.1	109	(14.0)
PBT	775	592	31.1	859	(9.8)
Prov. for tax	186	155	19.9	217	(14.3)
% of PBT	24.0	26.2		25.2	
PAT	590	437	35.0	642	(8.2)
Extraordinary items	-	-		-	
Pref. Dividend/ Minority Interest	-	-	-	-	-
Net profit	590	437	35.0	642	(8.2)

Source: Company data, I-Sec research

Key performance highlights**Exhibit 2: Revenue and revenue growth**

Source: Company data, I-Sec research

Exhibit 3: EBITDA margins

Source: Company data, I-Sec research

Exhibit 4: Segment-wise performance

Particulars	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Revenues (INRmn)					
Electronics	2,551	2,275	12.1%	3,637	-29.9%
Electricals	4,623	4,218	9.6%	4,567	1.2%
Consumer Durables	3,547	3,373	5.1%	3,312	7.1%
Sunflame	617	-	-	632	-2.3%
Total	11,338	9,866	14.9%	12,148	-6.7%
EBIT (INRmn)					
Electronics	378	333	13.6%	585	-35.3%
Electricals	383	228	67.8%	290	32.2%
Consumer Durables	(9)	97	-	9	-
Sunflame	37	-	-	58	-36.6%
Total	789	658	19.9%	942	-16.2%
EBIT margin (%)					
Electronics	14.8	14.6		16.1	
Electricals	8.3	5.4		6.3	
Consumer Durables	(0.3)	2.9		0.3	
Sunflame	6.0			9.2	
Total	7.0	6.7		7.8	

Source: Company data, I-Sec research

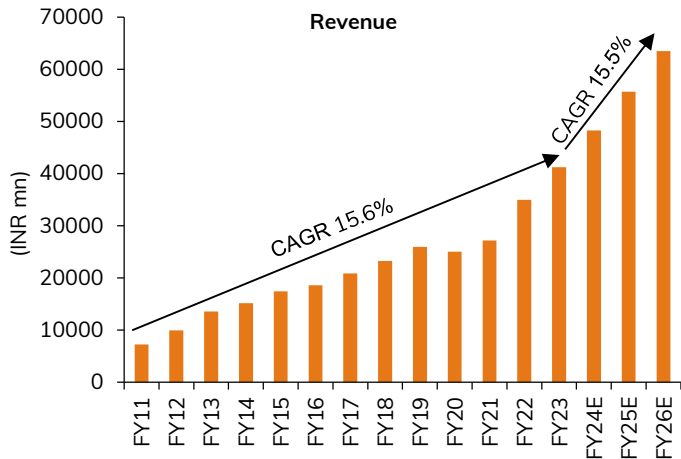
Exhibit 5: Geography-wise performance (Ex-Sunflame)

Particulars	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Revenues (INRmn)					
South India	6,028	5,649	6.7%	5,937	1.5%
Non-South India	4,693	4,216	11.3%	5,579	-15.9%
Total	10,720	9,866	8.7%	11,516	-6.9%
As % of Total					
South India	56.2	57.3		51.6	
Non-South India	43.8	42.7		48.4	
Total	100.0	100.0		100.0	

Source: Company data, I-Sec research

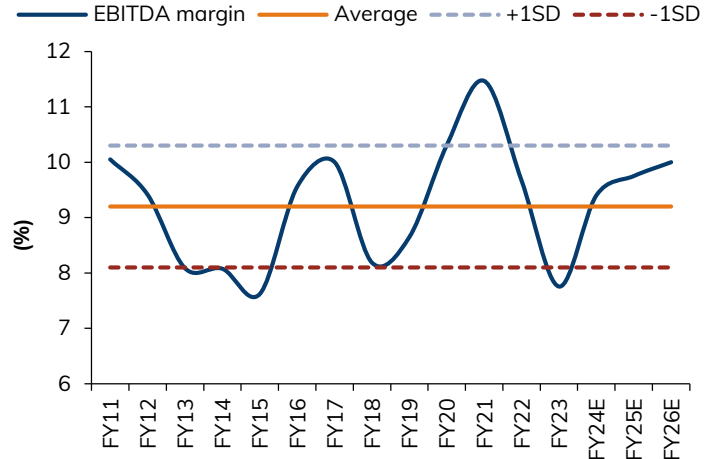
Key indicators – Annual

Exhibit 6: Revenue and revenue growth



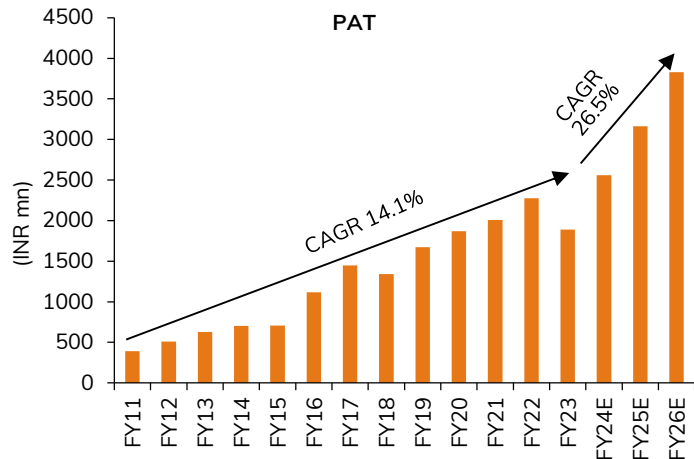
Source: Company data, I-Sec research

Exhibit 7: EBITDA margin



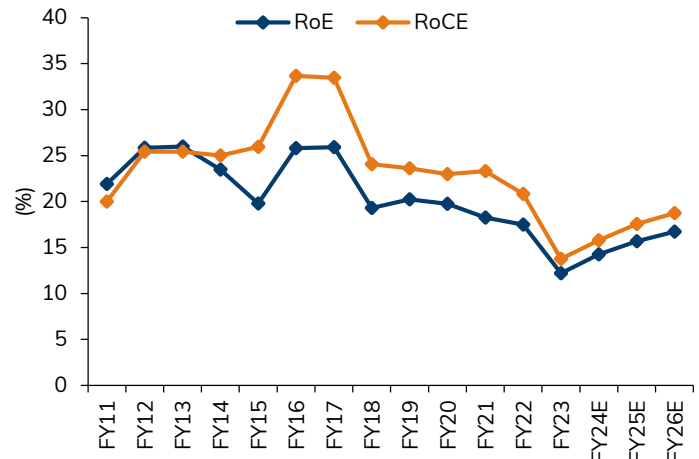
Source: Company data, I-Sec research

Exhibit 8: PAT and PAT growth



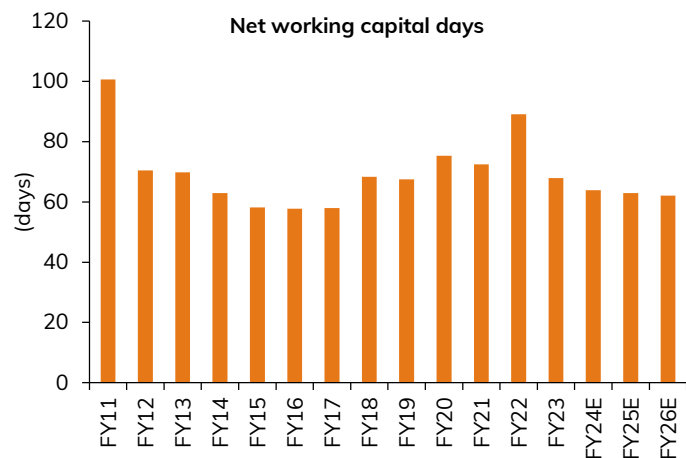
Source: Company data, I-Sec research

Exhibit 9: RoE and RoCE



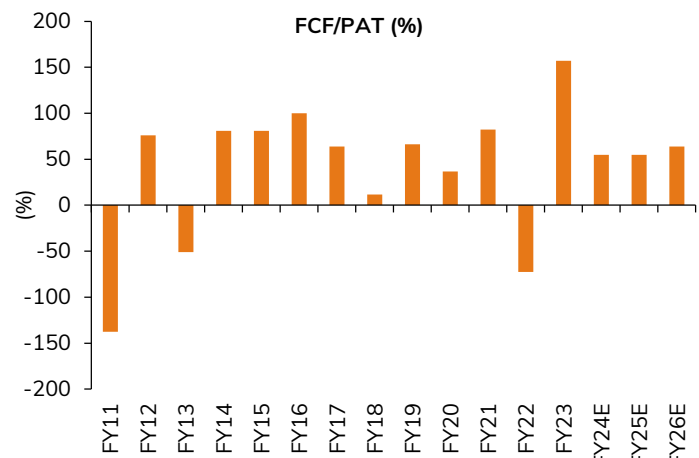
Source: Company data, I-Sec research

Exhibit 10: Net working capital days



Source: Company data, I-Sec research

Exhibit 11: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model V-Guard to report revenue and PAT CAGRs of 16.2% and 29.3% over FY23-FY25E and RoE to improve. At our DCF-based target price of INR 335, the implied P/E works out to 46x FY25E EPS. Maintain **ADD**.

Exhibit 12: DCF-based valuation

Particulars	Amt (INR)
Cost of Equity	11.0%
Terminal growth rate	4.0%
Discounted interim cash flows (INR mn)	47,144
Discounted terminal value (INR mn)	97,705
Total equity value (INR mn)	1,44,849
Value per share (INR)	335

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will likely result in downside to our estimates.

Delays in launch of new plants/products

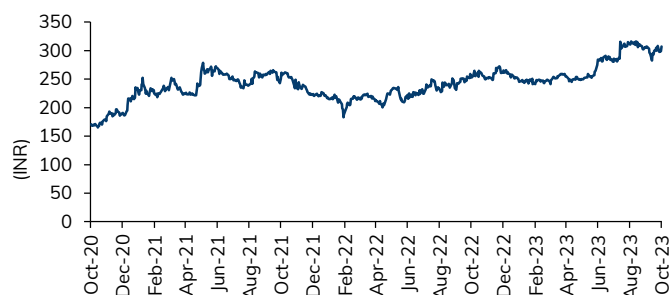
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 13: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	55.9	55.6	55.6
Institutional investors	31.9	31.9	32.5
MFs and others	18.3	18.8	18.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.7	0.5	0.4
FIIIs	12.9	12.6	13.2
Others	12.2	12.5	11.9

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	41,260	48,267	55,738	63,508
Operating Expenses	38,061	43,730	50,304	57,157
EBITDA	3,199	4,537	5,434	6,351
EBITDA Margin (%)	7.8	9.4	9.8	10.0
Depreciation & Amortization	644	869	973	1,066
EBIT	2,555	3,668	4,462	5,284
Interest expenditure	162	473	473	473
Other Non-operating Income	164	249	260	330
Recurring PBT	2,557	3,444	4,248	5,141
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	667	868	1,071	1,295
PAT	1,890	2,576	3,178	3,845
Less: Minority Interest	(1)	15	15	15
Extraordinaries (Net)	200	-	-	-
Net Income (Reported)	2,092	2,561	3,163	3,830
Net Income (Adjusted)	1,891	2,561	3,163	3,830

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	15,051	19,108	22,873	27,463
of which cash & cash eqv.	669	228	1,228	2,944
Total Current Liabilities & Provisions	6,700	10,426	12,039	13,718
Net Current Assets	8,351	8,683	10,833	13,745
Investments	2,284	3,484	3,484	3,484
Net Fixed Assets	8,850	9,505	9,783	9,966
ROU Assets	-	-	-	-
Capital Work-in-Progress	273	-	-	-
Total Intangible Assets	2,528	2,528	2,528	2,528
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	22,287	24,200	26,628	29,724
Liabilities				
Borrowings	5,261	5,261	5,261	5,261
Deferred Tax Liability	951	951	951	951
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	432	432	432	432
Reserves & Surplus	15,644	17,557	19,985	23,080
Total Net Worth	16,076	17,989	20,417	23,512
Minority Interest	-	-	-	-
Total Liabilities	22,287	24,200	26,628	29,724

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	9,808	11,401	12,148	11,338
% growth (YOY)	1.4	7.6	19.3	14.9
EBITDA	659	987	1,048	925
Margin %	6.7	8.7	8.6	8.2
Other Income	60	26	118	142
Extraordinaries	-	200	-	-
Adjusted Net Profit	393	728	642	590

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,983	2,658	2,985	3,700
Working Capital Changes	1,414	(772)	(1,151)	(1,196)
Capital Commitments	(1,026)	(1,250)	(1,250)	(1,250)
Free Cashflow	2,956	1,408	1,735	2,450
Other investing cashflow	(6,706)	(1,200)	-	-
Cashflow from Investing Activities	(7,733)	(2,450)	(1,250)	(1,250)
Issue of Share Capital	20	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,078	-	-	-
Dividend paid	(561)	(648)	(735)	(735)
Others	-	-	-	-
Cash flow from Financing Activities	3,537	(648)	(735)	(735)
Chg. in Cash & Bank balance	(213)	(441)	1,000	1,716
Closing cash & balance	395	228	1,228	2,944

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.4	5.9	7.3	8.9
Adjusted EPS (Diluted)	4.4	5.9	7.3	8.9
Cash EPS	5.9	7.9	9.6	11.3
Dividend per share (DPS)	1.3	1.5	1.7	1.7
Book Value per share (BV)	37.2	41.6	47.2	54.4
Dividend Payout (%)	29.7	25.3	23.2	19.2
Growth (%)				
Net Sales	17.9	17.0	15.5	13.9
EBITDA	(5.4)	41.8	19.8	16.9
EPS (INR)	(17.1)	35.4	23.5	21.1
Valuation Ratios (x)				
P/E	69.3	51.1	41.4	34.2
P/CEPS	51.7	38.2	31.7	26.7
P/BV	8.1	7.3	6.4	5.6
EV / EBITDA	41.7	29.2	24.2	20.4
P / Sales	3.2	2.7	2.3	2.1
Dividend Yield (%)	0.4	0.5	0.6	0.6
Operating Ratios				
Gross Profit Margins (%)	30.1	29.9	30.3	30.5
EBITDA Margins (%)	7.8	9.4	9.8	10.0
Effective Tax Rate (%)	26.1	25.2	25.2	25.2
Net Profit Margins (%)	4.6	5.3	5.7	6.0
NWC / Total Assets (%)	34.5	34.9	36.1	36.3
Net Debt / Equity (x)	0.1	0.1	0.0	0.0
Net Debt / EBITDA (x)	0.7	0.3	0.1	(0.2)
Profitability Ratios				
RoCE (%)	10.4	12.3	13.6	14.5
RoE (%)	12.5	15.0	16.5	17.4
RoIC (%)	10.4	12.3	13.6	14.5
Fixed Asset Turnover (x)	4.8	4.2	4.3	4.5
Inventory Turnover Days	73	91	90	89
Receivables Days	54	55	55	54
Payables Days	58	79	78	78

Source Company data, I-Sec research

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